

face of deepening global integration. The system of rules and procedures worked out and applied in the period from the founding of the US Reciprocal Trade Agreements program in 1934 through the Uruguay Round of GATT negotiations in the 1990s embodied more sensible economic content than Krugman cared to admit. At the same time, he seemed to discount the extent to which there needed to be new thinking about trade policy, some of it in response to new trade theories developed over the past few decades, but even more to take account of the changing nature of international production and exchange.

The new thinking needs to learn from insights developed in industrial organization theory, economic geography, business economics, and other domestically oriented sub-branches of micro-economics, suggesting that there are fewer differences between international trade and domestic commerce than was long assumed. As Krugman himself explained in a later article, "the trend in manufacturing has been to slice up the value chain—to produce a good in a number of locations, adding a little bit of value at each stage."³ This kind of fragmentation was originally confined to the firm and then to spatially proximate and, often, related firms. Increasingly, however, neither geography nor ownership remain as serious obstacles to the fragmentation of production and its subsequent integration. Even more pertinent to international trade, national borders are no longer significant barriers to the organization of production. Insights into the nature of production and the operations of private firms have opened up new ways of explaining international trade and investment. They have also suggested the need for new thinking about the object and purpose of trade and related negotiations among governments.

The old trade policy, despite Krugman's dismissal of GATT-think, was firmly grounded on the theory of comparative advantage. It assumed that trade is largely a matter of exchanging goods, that it takes place between national economies, reflecting each country's resource endowments and comparative

³ Paul Krugman, "Growing World Trade: Causes and Consequences." *Brookings Papers on Economic Activity*, 1 (1995), p. 334.